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OPEN MEETING ITEM
MEMORANDUM
Arizona Corporation Commission
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TO: THE COMMISSION

FROM: Utilities Division

DATE: April 30, 1999

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DOCKETED BY

DOCUMENT CONTROL

RE: IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC., TO AMORTIZE THE PURCHASED GAS ADJUSTOR BANK BALANCE (DOCKET NO. G-00000C-98-0568)

On April 14, 1999, Graham County Utilities, Inc. (Graham) filed for Commission approval of the amortization of its purchased gas adjustor (PGA) bank balance as of February 28, 1999. This filing by Graham is in response to the Commission Decision No. 61225 (October 30, 1998), which ordered most Arizona local distribution companies (LDCs) to implement a new 12-month rolling average PGA mechanism on June 1, 1999. The general framework of the new PGA mechanism came out of a series of meetings of the Purchased Gas Adjustor Design working group in the summer of 1998. The new 12-month rolling average PGA mechanism was implemented to address issues including natural gas price volatility, gas cost recovery flexibility, and uniformity between PGA mechanisms.

After the Commission issued Decision No. 61225, Staff, the LDCs, and other interested parties met several times to discuss various implementation issues. Decision No. 61225 contemplated the freezing of the bank balance accrued under the existing PGA mechanism, and the amortization of the under- or over-collection reflected in the existing bank balance. This would enable the new PGA mechanism to begin with a bank balance of zero. Zeroing out the bank balance is necessary because interest will be applied to the new bank balance, but not the frozen bank balance.

As of February 28, 1999, Graham's bank balance is overcollected by \$22,685. In its filing, Graham proposes to refund this bank balance over a 12-month period, resulting in an refund rate of \$0.00717 per therm, based upon annual sales of 3,162,439 therms. This refund rate would be applied to customer bills until the first month in which the frozen bank balance is fully refunded, at which time the refund rate would be discontinued. Any money recovered beyond that required to refund the frozen bank balance would be accounted for in the new bank balance.

Given the changes being made in the PGA mechanism, a phase-in could be needed to transition from Graham's currently effective PGA rate to the new rolling average PGA rate. To determine whether a phase-in is needed, it is necessary to compare the total cost of gas currently reflected in Graham's rates with the total cost of gas to be reflected on customer bills beginning on June 1, 1999. Components of the total cost of gas include the base cost of gas, the PGA rate, and if applicable, a refund rate for the bank balance. A phase-in would be necessary if there was a sizable difference between the current total cost of gas and the June 1st total cost of gas. The exact total cost

THE COMMISSION

April 30, 1999

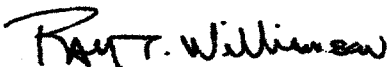
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sizeable difference between the current total cost of gas and the June 1st total cost of gas. The exact total cost of gas for June 1st will not be known until late May, when Graham finalizes the most recent gas cost information. However, as part of the April 12th filing, Graham provided the actual 12-month cost of gas through the end of February 1999. For the purpose of determining whether a phase-in is necessary, the February 1999 12-month cost of gas is expected to be sufficiently close to the June 1st 12-month cost of gas. Graham's 12-month average cost of gas at the end of February 1999 is \$0.2912 per therm. The table below shows the current total cost of gas and the estimated total cost of gas for June 1st.

| | Current Cost of Gas | Estimated Cost of Gas For June 1 st |
|---------------------------|---------------------|--|
| Base Cost of Gas | \$0.30941 per therm | \$0.30941 per therm |
| Bank Balance Amortization | 0 | -\$0.00717 per therm |
| PGA Rate | \$0.00 per therm | -\$0.0182 per therm |
| Total Cost of Gas | \$0.30941 per therm | \$0.28404 per therm |

The estimated change in the total cost of gas is a negative \$0.02537 per therm. Given the small size of this change and the fact that it is a reduction in the customer's billed rate, a phase-in is not necessary. After the freezing of the bank balance at the end of February 1999 and the implementation of the new PGA mechanism in June 1999, the LDCs will experience over- and/or under-recoveries of gas costs. To account for these over- and under-collections, monthly over- and under-collections incurred by Graham after the bank balance is frozen at the end of February 1999 would be included in the new bank balance.

Staff believes that the proposed refund rate of a negative \$0.00717 per therm is reasonable and should be adopted. Staff recommends approval of this filing.



Ray T. Williamson

Acting Director

Utilities Division

RTW:BG:sjs/JMA

ORIGINATOR: Robert Gray

0400-0000-0040

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BEFORE THE ARIZONA CORPORATION COMMISSION

JIM IRVIN
Commissioner - Chairman
TONY WEST
Commissioner
CARL J. KUNASEK
Commissioner

**IN THE MATTER OF THE APPLICATION OF
GRAHAM COUNTY UTILITIES, INC., TO
AMORTIZE THE PURCHASED GAS
ADJUSTOR BANK BALANCE**

DOCKET NO. G-00000C-98-0568

DECISION NO. _____

ORDER

Open Meeting
May 11 and 12, 1999
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Graham County Utilities, Inc. (Graham) is engaged in providing natural gas within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.

2. On April 14, 1999, Graham filed for Commission approval of the amortization of its purchased gas adjustor (PGA) bank balance as of February 28, 1999. This filing by Graham is in response to the Commission Decision No. 61225 (October 30, 1998), which ordered most Arizona local distribution companies (LDCs) to implement a new 12- month rolling average PGA mechanism on June 1, 1999.

3. The general framework of the new PGA mechanism came out of a series of meetings of the Purchased Gas Adjustor Design working group in the summer of 1998.

4. The new 12-month rolling average PGA mechanism was implemented to address issues including natural gas price volatility, gas cost recovery flexibility, and uniformity between PGA mechanisms.

5. After the Commission issued Decision No. 61225, Staff, the LDCs, and other interested parties met several times to discuss various implementation issues.

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1 6. Decision No. 61225 contemplated the freezing of the bank balance accrued under the
2 existing PGA mechanism, and the amortization of the under- or over-collection reflected in the
3 existing bank balance. This would enable the new PGA mechanism to begin with a bank balance of
4 zero. Zeroing out the bank balance is necessary because interest will be applied to the new bank
5 balance, but not the frozen bank balance.

6 7. As of February 28, 1999, Graham's bank balance is overcollected by \$22,685.

7 8. In its filing, Graham proposes to refund this bank balance over a 12-month period,
8 resulting in a refund rate of \$0.00717 per therm, based upon annual sales of 3,162,439 therms. This
9 refund rate would be applied to customer bills until the first month in which the frozen bank balance
10 is fully refunded, at which time the refund rate would be discontinued.

11 9. Any money recovered beyond that required to refund the frozen bank balance would be
12 accounted for in the new bank balance.

13 10. Given the changes being made in the PGA mechanism, a phase-in could be needed to
14 transition from Graham's currently effective PGA rate to the new rolling average PGA rate. To
15 determine whether a phase-in is needed, it is necessary to compare the total cost of gas currently
16 reflected in Graham's rates with the total cost of gas to be reflected on customer bills beginning on
17 June 1, 1999. Components of the total cost of gas include the base cost of gas, the PGA rate, and if
18 applicable, a refund rate for the bank balance.

19 11. A phase-in would be necessary if there was a sizable difference between the current total
20 cost of gas and the June 1st total cost of gas.

21 12. The exact total cost of gas for June 1st will not be known until late May, when Graham
22 finalizes the most recent gas cost information. However, as part of the April 12th filing, Graham
23 provided the actual 12-month cost of gas through the end of February 1999.

24 13. For the purpose of determining whether a phase-in is necessary, the February 1999 12-
25 month cost of gas is expected to be sufficiently close to the June 1st 12-month cost of gas. Graham's
26 12-month average cost of gas at the end of February 1999 is \$0.2912 per therm.

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14. The table below shows the current total cost of gas and the estimated total cost of gas for June 1st.

| | Current Cost of Gas | Estimated Cost of Gas For June 1 st |
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| Total Cost of Gas | \$0.30941 per therm | \$0.28404 per therm |

15. The estimated change in the total cost of gas is a negative \$0.02537 per therm. Given the small size of this change and the fact that it is a reduction in the customer's billed rate, a phase-in is not necessary.

16. After the freezing of the bank balance at the end of February 1999 and the implementation of the new PGA mechanism in June 1999, the LDCs will experience over- and/or under-recoveries of gas costs. To account for these over and under-collections, monthly over- and under-collections incurred by Graham after the bank balance is frozen at the end of February 1999 would be included in the new bank balance.

17. Staff believes that the proposed refund rate of a negative \$0.00717 per therm is reasonable and should be adopted.

18. Staff has recommended approval of this filing.

CONCLUSIONS OF LAW

1. Graham is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Graham and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated April 30, 1999, concludes that it is in the public interest to approve the filing.

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ORDER

THEREFORE, IT IS ORDERED that the filing be and hereby is approved.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

COMMISSIONER - CHAIRMAN

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, BRIAN C. MCNEIL,
Executive Secretary of the Arizona Corporation
Commission, have hereunto, set my hand and caused the
official seal of this Commission to be affixed at the
Capitol, in the City of Phoenix, this _____ day of
_____, 1999.

BRIAN C. MCNEIL
Executive Secretary

DISSENT: _____

RTW:BGG:sjsJMA